FINAL

Management Audit of Albuquerque Police Department Expenditures Report No. 02-108 Executive Summary

Background

The Albuquerque Police Department (APD) processes between 5,000 – 6,000 non-personnel expenditures annually, with a total cost of approximately \$6 million. APD has a Financial Management Division headed by the Fiscal Manager. The Fiscal Manager reports directly to the Chief of Police.

According to City budget documents, "The Financial Management Division is responsible for the efficient and effective management of the Department's financial resources in accordance with City ordinances and regulations, pertinent federal and state statutes and regulations, and generally accepted financial management principles. This encompasses various responsibilities which include budget preparation and monitoring, accounting, purchasing, contract management, travel management and building maintenance coordination." The APD Financial Management Division (Finance) has an FY05 budget of approximately \$960,000 and an approved staff level of 11.

Objective

The Office of Internal Audit performed an audit to determine if controls over APD's non-personnel expenditures are adequate and functioning as intended.

Findings

APD Finance has not had consistent management since the previous Fiscal Manager retired in April 2001. During the three years since his retirement, the Fiscal Manager position was filled for a total of seven months. Lower level Finance personnel were upgraded to Acting Fiscal Manager for the remainder of the three-year period. This has resulted in weak financial controls. In some instances, APD has not complied with City and Department fiscal policy. This is evidenced by out of date Department policies, late payments to vendors, improper purchases, undocumented journal vouchers transferring costs between accounts and programs and misclassified costs.

Recommendations

The CAO should consider developing specific training for fiscal managers. This would improve monitoring and oversight of Citywide and APD financial activities and emphasis on consistent compliance with City policies.

APD should review and update the standard operating procedures (SOPs) for Finance to reflect recent changes in City policy. All Department personnel should consistently follow the SOPs.

APD should assign the responsibility for prompt payment to vendors to a specific employee. The backlog of unmatched invoices should be addressed and procedures should be implemented to prevent the recurrence of large volumes of unpaid invoices.

APD should develop procedures to ensure that journal vouchers are properly documented.

APD should develop procedures to ensure that expenditures are properly and accurately classified. Additional accounts should be established for some classes of expenditures.

MANAGEMENT AUDIT REPORT

OF THE

ALBUQUERQUE POLICE DEPARTMENT

EXPENDITURES

REPORT NO. 02-108



CITY OF ALBUQUERQUE OFFICE OF INTERNAL AUDIT



City of Albuquerque P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

June 25, 2004

Internal Audit Committee City of Albuquerque Albuquerque, New Mexico 87102

Audit: Albuquerque Police Department

Expenditures 02-108

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INTRODUCTION

The Office of Internal Audit conducted an audit of the Albuquerque Police Department – Expenditures (APD). The audit was part of the Audit Plan for FY2002.

During FY2002 APD had \$6,572,634 in operating expenditures, and during FY2003 it had approximately \$5,745,578 in expenditures, which were paid out of the general fund, operating grants fund, and the law enforcement protection fund. APD paid over 6,000 invoices for operating expenditures during FY2002 and over 5,600 invoices during FY2003.

AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Are departmental controls over expenditures adequate and functioning as intended?
- Are expenditures made in compliance with applicable laws, rules and regulations?
- Are department expenditures within the approved budget?
- Are related performance measures relevant, measurable, and is reported performance accurate?

SCOPE

Our audit did not include an examination of all the functions, activities, and transactions of APD's expenditures. Our audit test work was limited to non-personnel expenditures made during FYs 2002, 2003, and 2004 through January 2004.

This report and its conclusions are based on information taken from a sample of transactions and do not purport to represent an examination of all related transactions and activities. The audit report is based on our examination of APD's activities through the completion of fieldwork and does not reflect events or accounting entries after that date.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49 requiring an external quality control review.

METHODOLOGY

We identified the risks associated with the expenditures process. We reviewed the current controls as identified by APD, which attempt to mitigate the risks. We reviewed 104 invoices, as well as 9 journal voucher entries (JVs). Our sample of 104 purchases included:

- 17 purchases made with small purchase orders;
- 35 purchases using contracts;
- 25 purchases made with purchase orders that resulted from requisitions;
- 22 disbursement transactions: and
- 5 travel payments.

We used a combination of the statistical sampling method and the judgmental selection method. Additionally, we interviewed key personnel, and performed analytical procedures.

FINDINGS

The following findings concern areas that we believe would be improved by the implementation of the related recommendations.

1. THE CAO SHOULD CONSIDER DEVELOPING SPECIFIC TRAINING FOR FISCAL MANAGERS.

APD has a Financial Management Division (Finance) that is responsible for the provision of accurate and timely financial services for the Department. Finance had a budget of approximately \$845,000 in FY02, \$1,086,000 in FY03 and \$865.000 for FY04. However, despite having a division dedicated to monitoring the Department's fiscal activity, APD does not have adequate controls in place to ensure compliance with City

policies regarding budgets and expenditures. We identified numerous cases where controls were weak or were not operating as intended.

The City has Administrative Instructions in place to delineate City policy and procedures for managing department budgets and expenditures. In addition, APD has standard operating procedures (SOPs) with mechanisms for internal controls. However, the procedures were frequently by-passed, thereby, rendering the controls ineffective. There were 24 invoices in our sample of 104, where APD did not follow the Administrative Instructions and/or APD SOPs.

Finance has procedures, which state that Finance will approve and check the requestor's budget to ensure that funding is available before forwarding a requisition for processing. This procedure was implemented as a control to prevent overspending. According to Finance personnel, budget availability is not questioned or checked during the first half of the fiscal year. Finance is more cautious regarding budget availability towards the end of the fiscal year. However, the second quarter FY04 budget projections for the APD Central Support Services projected the program would be overspent by more than \$200,000 without an additional appropriation. This indicates a need for monitoring budget availability throughout the year.

APD has experienced significant turnover in Finance in the past three years. The previous APD Fiscal Manager retired in April 2001. The City advertised the position several times without finding a suitable candidate. A Fiscal Supervisor was appointed the Acting Fiscal Manager until she retired in July 2003. In August 2003, a new Fiscal Manager was hired from outside the City. He resigned effective March 31, 2004.

The APD Fiscal Manager is the highest-level financial position within the Department and reports to the Chief of Police. The City's Department of Finance and Administrative Services (DFAS) provides training on City systems, policies and procedures. However, the training is general and not specifically for Fiscal Managers. Additionally, there is no one within APD to train the Fiscal Manager on procedures that are unique and specific to APD. Nor is there anyone who routinely reviews the work of the APD Fiscal Manager. The Fiscal Manager receives primary direction from the Chief of Police who is responsible and accountable for the APD's budget. However, the Chief may not be familiar with all City fiscal policies.

Administrative Instruction No. 2-20 places responsibility for budgetary control on anyone who has authority to expend public funds regardless of title. The Administrative Instruction states in part:

All employees with budgetary control over a Program Strategy must accomplish their tasks within the approved budget. All personnel decisions and all expense decisions must be made within that framework. It is unacceptable for an employee with budgetary control to spend in excess of the appropriated budget....

Employees such as fiscal managers and human resource coordinators who may lack direct control, but serve in a direct advisory capacity for expenditure decisions, shall provide the best information available. If the manager fails to act in a financially prudent manner upon receipt of the advice, the fiscal manager and/or human resource coordinator shall report to the manager's supervisor. This process will be repeated at ascending levels of management until the financial advice is heeded. If necessary, after following this procedure, if he/she still believes corrections have not been made in line with advice, he/she should report directly to the Chief Financial Officer.

The APD Fiscal Manager is responsible for establishing and maintaining financial controls in the department to ensure compliance with City policies regarding budgets and expenditures. If the Fiscal Manager is not familiar with City policies, or receives primary direction from someone who is not cognizant of all City financial policies, it could result in compromised controls and inappropriate use of City funds.

RECOMMENDATION

The CAO should review the training available for Finance personnel. Consideration should be given to developing training specifically for fiscal managers. This would provide consistency and increased oversight of financial controls.

APD should implement financial procedures including a system of controls over the budget and expenditures to ensure compliance with City and department policies.

- The procedures should be documented in the SOPs and tested periodically to ensure that controls continue to function as intended.
- The procedures should be followed by all APD employees.
- All APD employees who are authorized to make purchases should be trained on City procurement policies and procedures.

APD should ensure that Finance personnel are aware of their responsibility for financial controls as described in Administrative Instruction No. 2-20 and for compliance with all City policies.

EXECUTIVE RESPONSE FROM CAO

"DFAS holds bimonthly meetings for all fiscal personnel citywide to keep communication lines open regarding issues they are facing and bringing them up-to-date on changes and priority items. meetings, of course, are effective only when there is staff to attend them. The staffing issue at APD tends to be unique because of the difficulty in hiring for a civilian position in a quasi-military organization. However, the CAO will request that the CFO consider the advisability of temporarily assigning DFAS staff to APD when any higher-level fiscal position is expected to be vacant for more than a short period of time (more than a month). This should assure that necessary tasks are kept current and that institutional knowledge is not lost. The CAO will also request that the CFO work with APD with respect to APD SOPs relating to fiscal matters. It is the opinion of the CFO that a single set of financial policies should govern all City business. To the extent that APD is required to have financial SOPs for accreditation or other purposes, those SOPs should reflect City financial policies by reference, and not a separate set of financial procedures.

"The CAO notes that, with the conversion to purchasing cards, there has been a substantial retraining effort."

EXECUTIVE RESPONSE FROM APD

"APD concurs. A new fiscal manager has just been hired. We will ensure that he is trained in the City systems, financial processes, policies and procedures, A.I.s and fiscal policies."

2. APD SHOULD UPDATE ITS STANDARD OPERATING PROCEDURES.

The APD SOPs have not been changed to reflect City policy changes made in the past and some SOPs are in conflict with current City policy. Examples of SOPs that are not current or are in conflict with City policy are:

- SOP 1-02-5.G.3.a. states that the employee will not receive reimbursement for any state sales tax paid on petty cash purchases. City policy was changed in 1999 to allow the reimbursement of gross receipts tax on approved petty cash expenditures.
- SOP 1-02-5.J.3.a. states that mileage reimbursement for use of a private vehicle will be 24 cents per mile. The City of Albuquerque Travel Regulations, March 2002 Revision, states that use of a personal vehicle will be reimbursed at 36.5

cents per mile. The mileage reimbursement was reduced to 36 cents per mile in July 2003.

• SOP 1-02-4.A. lists twenty-three expense account numbers that APD is authorized to use. However, APD is not restricted to using the listed accounts and should establish other accounts to ensure the proper classification of expenditures (see Finding No. 7).

One of the items not addressed in the financial SOPs is the use of procurement cards, which are replacing small purchase orders. APD began using procurement cards in February 2004. Currently, 45 APD employees have been issued procurement cards.

APD has also made some changes with regard to responsibility for grants. In the past, Finance was responsible for fiscal procedures for the grants. The Planning Division of APD is currently responsible programmatically and fiscally for most of the grants. These changes are not reflected in the SOPs.

The SOPs should provide direction, consistency and control. Without current SOPs, employees do not have the appropriate standards to follow and may not comply with City policy.

The City's travel regulations were last updated in October 2002. At that time, the mileage reimbursement rate was 36.5 cents per mile. The City's mileage reimbursement rate is the same as the Internal Revenue Service rate at the time the expense is incurred. In 2003, the rate dropped to 36 cents per mile and in 2004, the rate increased to 37.5 cents per mile. However, the travel regulations have not been revised to reflect these changes. There does not appear to be a mechanism in place to update and inform City personnel of these types of changes.

RECOMMENDATION

APD should update its SOPs to be consistent with City policy and the Administrative Instructions

The APD SOPs should be reviewed and updated for procedures that have changed or are no longer reasonable.

DFAS should ensure that fiscal policies and regulations are regularly updated and the information is communicated to fiscal staff Citywide.

EXECUTIVE RESPONSE FROM APD

"APD concurs. We will review the SOPs and eliminate those that duplicate the City's existing policies and procedures, e.g., A.I.s, travel regulations. (See CAO response in Finding 1).

"The City's travel coordinators were notified via email dated May 15, 2003, and May 5, 2004, of the mileage rate change and the link to the IRS web page. In addition, mileage was an agenda item, and discussed, at the Payroll User Group Meeting of May 19, 2004. The written travel regulations will be revised within the next 30 days."

3. <u>APD SHOULD MONITOR UNMATCHED INVOICES TO ENSURE THAT PROBLEMS ARE RESOLVED AND VENDORS ARE PAID TIMELY.</u>

Administrative Instruction No. 3-7 states: "It is the policy of the City to pay all vendors in accordance with the terms of the contracts or within thirty days from the date of receipt of goods or services and/or date of invoice, whichever comes last." The instruction further states that it is the intent of the City to expedite, to the extent possible, payments to all vendors doing business with the City. We identified multiple invoices at APD that were not paid timely and a number of problems resulting from the late payments.

A. <u>Late Payments of Building Lease</u>

APD has lease/rent payments, which are due monthly. We reviewed payments to one lessor, which included late fees. Apparently, the lessor received the monthly lease payments after the grace period for late payments had passed. The lessor charged a ten percent late fee on the lease payments. APD was late making the lease payments five times in FY03, and paid almost \$1,400 in late fees. The invoices from the lessor clearly state that a ten percent late fee will be assessed for payments received ten days after the due date. Regular payment of late fees on this lease at ten percent add up to approximately \$3,500 annually of unbudgeted and unnecessary spending.

Staff in APD Finance stated that the late payment was due to APD receiving the invoices late. Apparently, the lessor mails the invoices only to the DFAS Accounts Payable Section (A/P), which is the normal City procedure. A/P scans the invoices with the City's imaging system. City departments can then view the invoices on-line and release them for payment. APD Finance staff did not understand that it is their responsibility to review the on-line listing of unmatched invoices on a regular basis. Instead, they expected A/P to send copies of the invoices to APD, as was done prior to implementation of the imaging system.

APD did not renegotiate terms at the end of the lease period. The lease stated that the month-to-month payments after the end of the lease period would be one and a half times the regular monthly lease payment. Finance personnel paid five lease payments at the higher month-to-month rate before contacting the lessor to renegotiate the lease terms. The lessor agreed to refund the overpayments. However, it is unclear if the credits were posted to the appropriate account. There was a discrepancy in the records, and it did not appear that Finance personnel had reconciled the differences to ensure that the credits were received or recorded. Additionally, the lease payments were posted to the Contractual Services account rather than to a Building Rent account.

B. Late Payment for Service of Summons

APD uses a private investigator to serve summons on defendants. During FY2003, APD paid more than 100 invoices from the private investigator, for a total of \$7,460.

APD does not have a contract with the private investigator. Instead, his invoices are held and accumulated then a purchase order is requested from the DFAS Purchasing Division to pay the accumulated total. The invoices were paid on a total of 15 purchase orders. This process has resulted in several problems:

- The private investigator was not paid timely. For example, the City received an invoice on March 5, 2002 for services provided the previous month. The invoice was not paid until August 13, 2002, when it was combined with six additional invoices from March 2002. The contractor had to wait five months to be paid for his services.
- The expenditures were not recorded in the correct fiscal year. Of the \$7,460 paid by APD during FY2003, a total of \$3,207 was for services performed during FY2002. The expenditures were neither accrued nor encumbered. As a result, APD expenditures were misstated for both FY 2002 and FY2003.
- The correct account was not always listed on the purchase orders. The majority of the expenditures were posted to the Professional Services account. However, some purchases were posted to the Supplies account and some were posted to the Contractual Services account.

It is inefficient to make multiple purchases for services from the same provider without a contract. The amount of paperwork to be processed is significantly greater when a separate purchase order must be cut to pay an invoice or group of invoices. A contract would result in one purchase order and payments on the contract could be released when invoices are received.

The Purchasing Rules and Regulations state, "The Purchasing Division shall, whenever possible, combine purchases of like goods, services and construction into single purchases or contracts for a specified period of time." It is APD's responsibility to inform the Purchasing Division of its needs so that contracts can be prepared.

The private investigator began submitting invoices for multiple services in July of 2002. The invoices list multiple names, presumably to who summons were served. Each invoice lists as many as 30 names, but does not provide the address where service was made, the date of service or information as to whether the summons was actually served or service was only attempted. All of the information was previously identified on the private investigator's individual invoices. This new billing method could make it difficult for APD personnel to reconcile to internal records and determine if the charges are appropriate.

C. <u>Unmatched Invoices Over 60 Days</u>

When a department orders goods or services, the order information should be entered on the City's financial system. When the vendor's invoice is sent to DFAS A/P, it is entered to the imaging and financial systems to be matched to the original procurement information and released for payment. If the information matches, the invoice is paid. If the information does not match, the invoice is deemed "unmatched" and is not paid until all discrepancies are resolved.

We ran an "Unmatched Invoices Older Than 60 Days" report for APD as of January 9, 2004. The report listed 120 invoices that were older than 60 days and had not yet been paid. The oldest invoice had been outstanding for 994 days. The total dollar value of the unmatched APD invoices was \$157,079 as shown in the table below.

Days	Number	
Outstanding	of Invoices	Dollar Value
60 – 90	22	\$ 8,217.13
91-120	29	65,430.03
121-180	10	54,042.17
181-365	37	27,042.36
366 – 730 (>1 - 2 years)	20	2,155.17
\geq 731 (\geq 2 years)	2	192.58
TOTAL	120	\$157,079.44

Administrative Instruction No. 3-7 states, "It is recognized that in many cases it is not possible to pay within thirty days due to unresolved vendor/City issues that may occur. However, if emphasis is placed by all responsible parties on the entire purchase/receipt/payment process, it is believed that a thirty-day payment policy will be achieved for the majority of payment obligations made by the City of Albuquerque." The Administrative Instruction assigns the responsibility for resolving issues with vendor invoices to both the operating departments and DFAS A/P. APD is not in compliance with the requirements of the Administrative Instruction. As of January 9, 2004, APD had 120 unmatched invoices that were outstanding an average of 232 days.

The Administrative Instruction further requires that operating departments "Ensure that procedures currently in place within the departments for purchase/receipt/payment approval are reviewed to eliminate bottlenecks and speed up the payment process. The emphasis should be on the proper approval of the purchase prior to receipt of goods or services and evidence of receipt of the goods or services. Payments should be a natural outflow of these functions and result in an expedient payment-approval process." The unpaid invoices at APD are for payments on contracts, small purchase orders, capital purchases and other types of procurements.

In March 2004, the DFAS Director instructed all City departments to resolve unmatched invoice issues. As a result, the number of unmatched invoices greater than 60 days has decreased significantly Citywide. At June 11, 2004, there were 754 unmatched invoices totaling \$698,900 (excluding two invoices for refuse vehicles with a combined total of \$715,000). This is the equivalent of .2% of the City's FY04 appropriations excluding personnel and transfer costs. There were 91 APD unmatched invoices greater than 60 days, totaling \$42,600 at June 11, 2004. Although the reduction in invoices has been significant, APD's unmatched invoices equal more than .4% of the department's FY04 appropriations excluding personnel and transfer costs. This is double the normal percentage for the City.

APD SOP 1-02-4.c. states "The Financial Management Division is committed to the accurate and timely payment of all accounts payable. 1. Research unmatched invoices, and process payment as required. 2. Process requisitions for disbursements. 3. Review accounts payable to ensure payment within days."

It appears that many of APD's controls over procurements and payment processing should be reviewed to identify opportunities for improvement. Vendors who provide goods and services to multiple City departments may withhold goods and services until all City payments are current regardless of which department is late with payment. Additionally, unpaid invoices may not be

properly accrued at year-end, which could result in budgetary problems in the subsequent year.

RECOMMENDATION

APD Finance should ensure that all payments are made timely. An employee should be assigned to ensure that all corrections and credits are properly and accurately posted.

APD should consider setting up monthly recurring payments such as lease payments on the auto-pay system to avoid late payments, and late payment fees. Finance employees should be trained on regular monitoring of A/P reports.

APD should assign an employee to monitor the terms of contracts and leases so they can be re-bid or renegotiated prior to their expiration dates.

APD should set up a "building-rent" account for building rental expenditures.

APD should request that the DFAS Purchasing Division assist with the preparation of a contract for the service of summons. The contract should specify the format for invoicing the City to ensure that all necessary information is included.

APD should routinely review its expenditures to determine if contracts are needed for multiple purchases of like goods or services.

APD should monitor unmatched invoices to ensure that problems are resolved and vendors are paid timely. APD should assign an employee to work with DFAS A/P to resolve the issues with the unmatched invoices that are currently unpaid as well as all unmatched invoices in the future.

APD should ensure that its procedures for approval and payment of accounts payable are strictly followed.

EXECUTIVE RESPONSE FROM APD

"Accounts Payable: The APD fiscal manager will ensure that unmatched invoices are monitored, invoice problems are resolved, timely payments are made, and procedures followed. The fiscal manager hopes to have the outstanding issues resolved in 90 days. The department will set up its recurring lease payments on the auto-pay system.

"Contracts: There is an APD employee responsible for contracts. The APD fiscal manager will emphasize the importance of monitoring the contracts for possible re-bid or renegotiation before they expire, and will also review expenses for possible new contracts. APD will meet with purchasing to discuss and research summons services to determine the pros and cons of a contract, and then select the purchase methodology that best serves the department's needs.

"The City's accounting policy is that lease payments are expensed in the contract line item. This policy complies with the NCGAS 1.116 (GAAFR Principles) which states that 'expenses should be classified by object classes, ... Examples of 'Current Operating' object of expenditure classifications are personal service, supplies, and other services and charges... Excessively detailed object classifications should be avoided since they complicate the accounting procedure and are of limited use in financial management."

4. <u>APD SHOULD COMPLY WITH ADMINISTRATIVE INSTRUCTION NO. 3-11</u> PROHIBITING THE PURCHASE OF PERSONAL USE ITEMS.

Administrative Instruction No. 3-11 states: "It is the City's policy that City funds will not be used to purchase gifts, amenities, or items for the personal use of employees or for consumption by employees, unless the items are required to perform assigned departmental responsibilities or functions."

Our sample of 104 purchases included 17 purchases made with small purchase orders, 35 purchases using contracts, 25 purchases made with purchase orders that resulted from requisitions, 22 disbursement transactions and 5 travel payments. Five of the 104 invoices in our sample were for personal-use items, including, but not limited to purchases of food, coffee supplies, bottled water service, meals at restaurants and retirement watches.

Three of the five purchases of personal use items were made with small purchase orders. Purchases made with small purchase orders do not require the same level of authorization as other purchasing methods; therefore, unallowable purchases are less likely to be detected during the approval process. We reviewed a listing of APD's purchases made with small purchase orders during FY2002 and FY2003 to identify other potential personal use items.

We identified numerous personal use items procured with small purchase orders. For example, APD purchased 93 retirement watches; 21 watches were purchased in the five months from July 2001 through November 2001 and 72 were purchased between December 1, 2001 and February 2003. Other personal use items included: auto detailing

of patrol cars; logo t-shirts and warm-up suits; catered food for two events; plaques; car wash coupons; and cakes. Prior to the current Chief taking over APD, items such as gift certificates for one-hour massages and "chocolate badges" were purchased.

A number of items purchased with small purchase orders appeared to be discretionary although not for personal use. The City was facing projected budget shortfalls in both FY2002 and FY2003; therefore, purchases of discretionary items should have been curtailed. We did not review the supporting documentation for each of the small purchase orders; therefore, it is likely that there were additional purchases of personal use items using small purchase orders.

The City has replaced small purchase orders with procurement cards. APD has 45 employees who have been issued procurement cards and can make purchases up to \$1,000 per procurement card transaction. In the two months of use, from February 29, 2004 through April 30, 2004, APD employees charged \$31,785 on their procurement cards. Procurement card holders have the ability to make purchases without prior approval, increasing the need for controls and monitoring of the transactions.

One of the five purchases of personal use items identified in our sample was identified in a disbursement to replenish petty cash; the other was made using a contract. Our sample included only 35 contract payments and 22 disbursements. Approximately 10,000 invoices were paid by methods other than small purchase order during FY2002 and FY2003. Therefore, it is likely that there were additional purchases of personal use items that were not identified during the audit.

Most of the paid invoices for the purchases were not supported by an approval or request memo, as required by APD SOPs. The Department Director had not approved any of the purchases. APD does not consistently follow its written financial procedures and controls for request and approval of purchases. APD is not complying with Administrative Instruction 3-11. Additionally, APD is making unnecessary discretionary purchases and is running the risk of exceeding its approved budgets for some programs.

RECOMMENDATION

APD should comply with Administrative Instruction No. 3-11 with regard to the purchase of personal-use items. APD should ensure that the request and approval procedures in the SOPs are followed to help ensure that purchases of personal use items are not made.

APD management should carefully review department purchases to ensure that discretionary items are not purchased during periods when expenditures are being reduced Citywide.

EXECUTIVE RESPONSE FROM APD

"APD believes, with the exception of cake and water purchases, it is in compliance with A.I.3-11. Questioned expenditures such as plaques, warm up suits and massages were used in conjunction with CAO-approved awards and City-sponsored training programs. Most approvals were made by the prior CAO. The department will review its SOPs and A.I.3-11 regarding personal use items with its staff in order to ensure the policy is understood.

"APD management does comply with Budget and CAO mandates when fiscal constraints are imposed."

5. <u>APD SHOULD MAINTAIN FILES WITH COMPLETE DOCUMENTATION TO SUPPORT AND JUSTIFY ALL JOURNAL VOUCHER ENTRIES.</u>

We reviewed a sample of nine journal vouchers (JVs), made by APD Finance personnel, to ensure that the entries were valid, appropriate and properly supported. The JVs moved a total of \$175,828 between programs and accounts. The descriptions provided for the JVs stated that they were to correct previous posting errors and to move disallowed costs from grant funds to the General Fund.

The JVs were not always supported with the appropriate documentation to justify the entries. The documentation provided for some entries was nothing more than an email stating that the entry should be made. Insufficient documentation may be an indicator of inappropriate journal entries. The APD accounting clerks, directed to make the entries, did not always know the origin of the entry, or that the documentation should be filed with the entry.

The City On-line Journal Voucher Policy states: "All supporting documentation for the JV should be maintained separately and contain the permanent JV# assigned." Additionally, a memo from the CAO to department directors states: "The support for each JV must immediately be available upon request by Financial Reporting, external auditors or Internal Audit."

RECOMMENDATION

APD should maintain files with complete documentation to support and justify all JV entries.

EXECUTIVE RESPONSE FROM APD

"APD concurs. The fiscal manager will ensure that proper documentation and substantiating paperwork is in place in accordance with the CAO's memo before approving or processing any subsequent JV's."

6. APD SHOULD CLASSIFY EXPENDITURES PROPERLY AND ACCURATELY.

The DFAS, Accounting Division has issued a list of standard account numbers, which should be used for proper classification of expenditures. APD expenditures were frequently improperly classified. Twenty-four purchases, out of the total sample of 104, were recorded to an incorrect account.

The following types of expenditures were recorded to the "Supplies" account:

Utilities
Training manuals
Transcription fees
Bicycles and accessories

Building signage
Dues and memberships
Advertising

The bicycles should have been recorded as capital purchases and listed as City owned fixed assets.

Vehicle purchases were recorded in the "Equipment Other Than Auto" account. Training registration costs were recorded as local travel. Building rental costs were recorded as contractual services.

Some of the employees who posted the entries did not have a clear understanding of the various account classifications. Some APD activities did not have accounts established for major cost classifications. For example, the activity for the Local Law Enforcement Block Grant, where the vehicles were purchased, does not have an account for recording the purchase of automobiles. The Law Enforcement activity does not have accounts established for dues and memberships or advertising.

Improper classification of expenditures presents an erroneous picture of the budget position of the Department. This could lead to management decisions based on inaccurate information. More importantly, the capital items recorded as supplies are not included in the asset list. Therefore, the City is not tracking those items.

RECOMMENDATION

APD should review and ensure that all recorded expenditures are properly classified, in order to present a more accurate financial picture of APD's operations.

APD should request that additional accounts be established for recording expenditures so that costs can be properly classified.

APD should ensure that all capital items are properly recorded as assets and tracked.

EXECUTIVE RESPONSE FROM APD

"APD concurs. The fiscal manager will review A/P paperwork and transactions before they are processed to ensure that the transactions are charged to the appropriate expense account. There is some question of whether bicycles meet all the criteria for a fixed asset because of their life cycle. This will be reviewed with DFAS/accounting, and APD will ensure they are accounted for accordingly."

7. <u>APD SHOULD DETERMINE THE CAUSES OF THE DIFFERENCES BETWEEN</u> PERFORMANCE GOALS AND ACTUAL PERFORMANCE.

The City utilizes performance based budgeting where inputs such as appropriations require certain outputs. The intent of performance based budgeting is to have the budget tie to the performance plan, which is approved annually in conjunction with the City of Albuquerque operating budget. A complete performance management system includes performance standards against which actual performance is reported, monitored, and compared. APD should report data regarding its accomplishment of measures listed in the City's annual performance plan. However, as of October 2003, APD had not recorded the actual measures for FY2002 or FY2003.

The City's Performance Plan for fiscal years 2002 and 2003 for the APD Financial Management Activity projected the following measures. We determined the actual amounts based on available data.

Output Measure	Projected	Actual	Variance
# of invoices processed for payment FY2002	5,658	6,012	354
# of invoices processed for payment FY2003	5,658	5,619	39
Quality Measures			
# of Financial audit exceptions for FY2002	0	1	1
# of Financial audit exceptions for FY2003	0	2	2
Average # of outstanding invoices older than 60			
days FY2002	5	*	*
Average # of outstanding invoices older than 60			
days FY2003	5	*	*

^{*} This could not be determined because outstanding invoice reports were not available as of each fiscal year end

APD Finance has limited control over the number of invoices that need to be processed during any given period. Therefore, a variance in this output measure is not significant.

The quality measure for the number of audit exceptions was exceeded in both FY2002 and FY2003. In FY2002, the City's Comprehensive Annual Financial Report (CAFR) included a finding related to APD's documentation of travel expenses. The FY2003 CAFR included APD in a finding about budget over-expenditures because the APD Central Support program was overspent by \$528,052. A second finding was included related to untimely posting and reconciliation of cash transactions by APD Finance.

The quality measure of the average number of invoices older than 60 days was not met. APD projected an average of five outstanding invoices during the year. APD had not reported the actual number for this quality measure. We ran a report showing the unmatched invoices older than 60 days as of January 9, 2004. At that date, there were 120 invoices older than 60 days with a total invoice amount of \$157,079 (see Finding No. 3). It appears that although APD Finance is processing the projected number of invoices, problems with invoices are not resolved timely.

RECOMMENDATION

APD should determine the causes of the differences between performance goals and actual performance, and either develop solutions to bring performance into line with the goal, or adjust the goal to make it realistic and achievable.

APD should develop procedures to ensure that performance measure data is tracked and reported.

EXECUTIVE RESPONSE FROM APD

"APD concurs and will review its actual performance versus its goals and make the necessary adjustments. The department tracks and monitors its performance data as part of the annual budget process."

8. <u>MISCELLANEOUS FINDINGS:</u>

The following findings do not require a response from APD. However, action to improve these areas should be considered to increase departmental compliance with rules and regulations, and to strengthen internal controls.

A. <u>APD Should Ensure That All Expenditures Have Documented Approval For Payment.</u>

The City Purchasing Rules and Regulations Section 5.2 states: "All procurement documents must be properly executed and signed by a properly authorized agent of the City."

Additionally, APD Finance staff stated in our interviews during the audit, that all purchases on small purchase orders, contracts, and requisitions must have an approval signature. Small purchase orders must have an authorized signature before payment is released.

Our sample of 104 purchases included 17 purchases made with small purchase orders. One invoice in our sample was paid with an unauthorized small purchase order document. The small purchase order did not have an approval signature. One small purchase order purchase out of the 17 included in the sample is a six percent error rate. The same percentage of the total population of small purchase order purchases would be a substantial number of inappropriately authorized documents.

Expenditures made without following established procedures, such as obtaining approval signatures, increases the risk of overspending and making inappropriate purchases. APD should ensure that an authorized agent of the City properly signs all procurement documents before they are authorized for payment.

APD Finance should ensure that all financial documents, which require authorizations, have appropriate signatures or documentation indicating there has been appropriate approval. Additionally, APD should consistently follow all procedures as stated in its procedures manual.

B. Contracts Should Be Specific Regarding Gross Receipts Tax.

During our invoice review, we noted one invoice, which had a line item for gross receipts tax (GRT) charges. The vendor was on contract. The five-year contract terms were ambiguous with regard to GRT as well as freight charges. The contract dollar limit stated in the contract documents was \$169,711 per fiscal year. The amount spent in FY02 was \$178,197, which included \$8,486 of GRT. However, the language was vague on whether or not GRT charges should be included in the contract price.

The City received a letter from the vendor with an attachment from the State of NM telling him that he should collect the GRT from the City, that he (the vendor) had paid the State. Because the contract spending limits had been reached, and the City was in fact liable for the GRT, it was necessary to issue a contract adjustment for additional payment to cover the unpaid GRT.

APD and the Purchasing Division should communicate the contract limits when preparing and soliciting a Request for Proposal. They should ensure that the contract language is appropriate and in agreement with the department's needs. The contract should be clear on the issue of GRT, so that the department budgets sufficient funds.

C. APD Should Maintain Current Signature Authorization Forms.

Administrative Instruction No. 3-2-2A, Signature Authority for Public Purchases, states: "Signature authority as assigned in this Administrative Instruction may be delegated in writing by the official with the assigned authority to any supervisory employee under his or her direction." This Administrative Instruction, dated May 18, 1995, supersedes any or all directives related to signature authority.

APD has five individuals authorized to sign purchase documents; however, the Department Director, and two other division personnel are the only signatures on file. The Department Director has not formally delegated signature authorization to Finance authorized signers since 1993. There have been numerous changes in personnel in recent years.

Lack of formal signature authorization contributes to a decline in controls. Without the forms, it is uncertain who is actually authorized to make purchases and their dollar limitations. Purchases could be made without authorization. APD Finance personnel said they were unaware that the signature card requirement was still in effect. They had not inquired about it, had not been sent current forms, or had not been directed to sign new signature forms.

To be in compliance with the Administrative Instruction and to provide the necessary internal controls, APD management should provide formal written delegation of signature authority to authorized personnel. The Director and the employees should sign and date the form and keep current signed forms on file.

D. <u>APD Management Should Enforce Compliance With All Written Policies, Procedures And Controls.</u>

On January 4, 2002, the APD Chief of Police issued a directive, instructing the department to "cancel any and all water bottle services that are paid for from the Albuquerque Police Department's budget." There were exclusions from this directive, for activities that did not have access to "potable water." Those activities, which were exempt from this directive, were the Firearms Range, Air Support, Evidence Warehouse and the Big I Substation.

Between January 4, 2002, when the directive was issued and June 30, 2003, twenty-three invoices were charged to activities that were not allowed to purchase bottled water. Several of the purchases were made, using small purchase orders rather than the bottled water contract. The activities that continued to purchase water and/or water services were:

- Chief's Office
- Financial Management
- Personnel Management
- Criminalistics
- Fingerprint/ID Services
- North Valley Area Command
- Southeast Area Command
- Foothills Area Command
- Data Management
- Internal Affairs
- Inspections

APD does not always follow its purchasing SOPs concerning approvals; therefore, Finance did not identify the unallowable purchases. Although the dollar amount involved was small, the failure of APD employees to follow the Chief's directive indicates a systemic problem with following City and Department financial policies.

APD management should enforce compliance with all written policies, procedures and controls. The violations of the Chief's directive should be investigated and appropriate actions should be taken.

CONCLUSION

APD controls over Department expenditures should be strengthened. Turnover in the Financial Management Division may have contributed to weak fiscal controls. Increased training for the Fiscal Manager may alleviate some problems and provide more consistency with City policies. Updating and enforcing the Department's Standard Operating Procedures may also help maintain the continuity of controls despite turnover in financial positions.

We appreciate the cooperation of APD staff do	uring the audit.
Principal Auditor	
REVIEWED AND APPROVED:	APPROVED FOR PUBLICATION:
Debra D. Yoshimura, CPA, CIA, CGAP Internal Audit Officer	Chairman, Audit Committee